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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

SEC FILE NUMBER
8- 14148

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 ThereunderREPORT FOR THE PERIOD BEGINNING 01/01/2007 AND ENDING 12/31/2007  
MM/DD/YY MM/DD/YY

## A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: SUNSET FINANCIAL SERVICES, INC.

OFFICIAL USE ONLY

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

FIRM I.D. NO.

3520 BROADWAY

KANSAS CITY

(No. and Street)  
MO

64111

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

BRUCE OLBERDING

816-753-7000

(Area Code - Telephone Number)

## B. ACCOUNTANT IDENTIFICATION

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Section

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

FEB 29 2008

KPMG, LLP

(Name - if individual, state last, first, middle name)

Washington, DC  
111

TWO CENTRAL PARK PLAZA, STE 1501 OMAHA, NE

68102-1626

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant  
☐ Public Accountant  
☐ Accountant not resident in United States or any of its possessions.

PROCESSF

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THOMSON  
FINANCIAL

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\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (06-02)

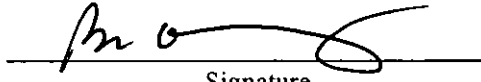
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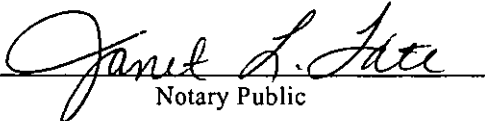
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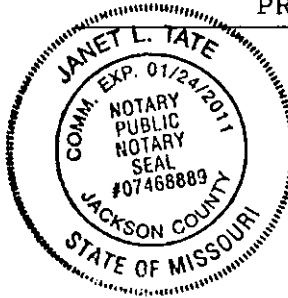
## OATH OR AFFIRMATION

I, BRUCE OLBERDING, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of SUNSET FINANCIAL SERVICES, INC., as of FEBRUARY 21, 2008, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

JANET L. TATE  
Notary Public - Notary Seal  
STATE OF MISSOURI  
Jackson County  
My Commission Expires: 01/24/2011  
Commission # 07468889

  
Signature  
PRESIDENT  
Title

  
Notary Public



This report \*\* contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☒ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- ☒ (o) Independent Auditor's Report of Internal Control Structure

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

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## ***Sunset Financial Services, Inc.***

### **Financial Statements and Supplemental Schedules**

**December 31, 2007 and 2006**

<i>Statements of Financial Condition.....</i>	<i>1</i>
<i>Statements of Operations.....</i>	<i>2</i>
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**SUNSET FINANCIAL SERVICES, INC.**  
**STATEMENTS OF FINANCIAL CONDITION**  
(amounts in thousands, except share data)

	December 31	
	2007	2006
<b>ASSETS</b>		
Fixed maturity securities (amortized cost: 2007 - \$863; 2006 - \$783) \$	880	\$ 787
Cash and cash equivalents	1,778	1,700
Accounts receivable (net of allowance: 2007 - \$10; 2006 - \$3)	814	252
Current tax asset	-	3
Deferred tax asset	7	4
Total assets	<u>\$ 3,479</u>	<u>\$ 2,746</u>
<b>LIABILITIES</b>		
Commissions payable	\$ 1,482	\$ 832
Due to affiliated entities	37	127
Current tax liability	62	-
Other liabilities	72	68
Total liabilities	<u>1,653</u>	<u>1,027</u>
<b>STOCKHOLDER'S EQUITY</b>		
Common stock, par value \$10 per share; authorized 50,000 shares, issued and outstanding 5,000 shares	50	50
Additional paid in capital	1,800	1,800
Retained deficit	(24)	(131)
Total stockholder's equity	<u>1,826</u>	<u>1,719</u>
Total liabilities and stockholder's equity	<u>\$ 3,479</u>	<u>\$ 2,746</u>

*See accompanying Notes to Financial Statements.*

**SUNSET FINANCIAL SERVICES, INC.**  
**STATEMENTS OF OPERATIONS**  
(amounts in thousands)

	Year ended December 31	
	2007	2006
<b>REVENUES</b>		
Commissions:		
Transactions from unaffiliated entities	\$ 19,508	\$ 16,632
Transactions from affiliated entities	4,281	3,742
Investment and other income	147	83
Total revenues	<u>23,936</u>	<u>20,457</u>
<b>EXPENSES</b>		
Commissions	21,423	18,352
Administrative fees	2,304	2,224
Operating expenses	40	(120)
Total expenses	<u>23,767</u>	<u>20,456</u>
Income before income tax expense	169	1
Income tax expense	<u>62</u>	<u>-</u>
<b>NET INCOME</b>	<u>\$ 107</u>	<u>\$ 1</u>

*See accompanying Notes to Financial Statements.*

**SUNSET FINANCIAL SERVICES, INC.**  
**STATEMENTS OF STOCKHOLDER'S EQUITY**  
(amounts in thousands)

	<u>Year Ended December 31</u>	
	<u>2007</u>	<u>2006</u>
<b>COMMON STOCK</b> , beginning and end of year	\$ 50	\$ 50
<b>ADDITIONAL PAID IN CAPITAL</b>		
Beginning of year	1,800	800
Additional paid in capital	-	1,000
End of year	<u>1,800</u>	<u>1,800</u>
<b>RETAINED DEFICIT</b>		
Beginning of year	(131)	(132)
Net income	107	1
End of year	<u>(24)</u>	<u>(131)</u>
<b>STOCKHOLDER'S EQUITY</b>	<u>\$ 1,826</u>	<u>\$ 1,719</u>

*See accompanying Notes to Financial Statements.*

**SUNSET FINANCIAL SERVICES, INC.**  
**STATEMENTS of CASH FLOWS**  
(amounts in thousands)

	Year Ended December 31	
	2007	2006
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 107	\$ 1
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Accounts receivable	(562)	38
Current tax liability	65	(71)
Deferred tax asset	(3)	71
Commissions payable	650	12
Realized gain on fixed maturity securities	(18)	(4)
Due (to) from affiliated entities	(90)	8
Other liabilities	4	(200)
Net cash provided (used)	<u>153</u>	<u>(145)</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of fixed maturity securities	(472)	(197)
Sale of fixed maturity securities	<u>397</u>	<u>198</u>
Net cash provided (used)	<u>(75)</u>	<u>1</u>
<b>FINANCING ACTIVITIES</b>		
Additional paid in capital	<u>-</u>	<u>1,000</u>
<b>CASH and CASH EQUIVALENTS</b>		
Increase in cash and cash equivalents	78	856
Cash and cash equivalents at beginning of year	<u>1,700</u>	<u>844</u>
Cash and cash equivalents at end of year	<u>\$ 1,778</u>	<u>\$ 1,700</u>

*See accompanying Notes to Financial Statements.*

**Sunset Financial Services, Inc.**  
**Notes to Financial Statements**  
(amounts in thousands)

***1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES***

**Description of Business**

Sunset Financial Services, Inc. (the Company) is a full-service brokerage firm offering a wide range of financial products. The Company is a wholly-owned subsidiary of Kansas City Life Insurance Company (Kansas City Life). The Company is registered as a broker/dealer with the Securities and Exchange Commission and is a member of the Financial Industry Regulatory Authority (FINRA). The sales force of the Company consists primarily of agents of Kansas City Life.

**Basis of Presentation**

The accompanying financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America (GAAP).

**Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from such estimates.

**Cash and Cash Equivalents**

The Company considers all highly liquid instruments purchased with original maturity of three months or less when purchased to be cash equivalents.

**Securities Transactions**

Customers' securities and commodities transactions are reported on a trade date basis with related commission income and expenses reported on a trade date basis.

Amounts receivable and payable for securities transactions that have not reached their contractual settlement date are recorded net on the statement of financial condition.

**Fixed Maturity Securities**

Fixed maturity securities, held for trading, were stated at fair value which was obtained from an external source. Changes in fair value are recorded in investment and other income.

**Revenue Recognition**

Commissions are recorded on a trade date basis as securities transactions occur.

**Income Taxes**

The Company files a consolidated Federal tax return with other insurance and non-insurance affiliates of its parent, Kansas City Life Insurance Company. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Gross deferred tax assets and liabilities are measured using enacted tax rates and are considered for admitted assets status according to the admissibility tests as set forth by the FINRA. The Company recorded deferred tax assets of \$7 at December 31, 2007 and \$4 at December 31, 2006.



**Sunset Financial Services, Inc.**  
**Notes to Financial Statements – Continued**  
(amounts in thousands)

**Agreement with Clearing Broker**

The Company acts as an introducing broker/dealer and clears all general securities transactions with and for customers on a fully disclosed basis with National Financial Services, a clearing broker. The Company is exempt from Rule 15c3-3 of the Securities and Exchange Commission under paragraph (k)(1) of that Rule. All customer funds and securities are received by the clearing broker which carries the customer accounts and maintains the records of customer transactions pursuant to the requirements of Rules 17a-3 and 17a-4 of the Securities Exchange Act of 1934. For these services, the Company will pay clearing charges as set forth in the agreement between the Company and the clearing broker. The Company is contingently liable to the clearing broker for any losses incurred which may result from the clearing of customer transactions for the Company.

As of December 31, 2007, the Company had a receivable of \$22 (2006 – \$47) with the clearing broker.

**2. INVESTMENTS**

**Investment Revenues**

The following tables provide investment income by major category at December 31. Realized gains and losses on the sale of investments are determined on the basis of specific security identification.

	<u>2007</u>	<u>2006</u>
<b>Net investment income</b>		
Fixed maturity securities	\$ 36	\$ 29
Other	84	48
Total investment income	<u>\$ 120</u>	<u>\$ 77</u>
 <b>Realized investment gains</b>		
Fixed maturity securities	<u>\$ 20</u>	<u>\$ 2</u>
Total realized investment gains	<u>\$ 20</u>	<u>\$ 2</u>

**Contractual Maturities**

The following table provides the distribution of maturities for fixed maturity investment securities as of December 31, 2007. Expected maturities may differ from these contractual maturities since borrowers may have the right to call or prepay obligations.

	<u>Fair Value</u>
Due in one year or less	\$ 199
Due after one year through five years	451
Due after five years or more	230
Total	<u>\$ 880</u>

**Sunset Financial Services, Inc.**  
**Notes to Financial Statements – Continued**  
(amounts in thousands)

**3. FEDERAL INCOME TAXES**

The components of income tax expense (benefit) on operations are as follows:

	<u>2007</u>	<u>2006</u>
Current income tax expense (benefit)	\$ 65	\$ (71)
Deferred income tax expense (benefit)	<u>(3)</u>	<u>71</u>
Total income tax expense	<u>\$ 62</u>	<u>\$ -</u>

Total income tax expense on income from operations differs from the statutory rate of 35% of income before income tax expense as shown in the following table:

	<u>2007</u>	<u>2006</u>
"Expected" income tax expense	\$ 59	\$ -
Increase (decrease) resulting from:		
State taxes, net of federal benefit	3	-
Valuation allowance	-	(9)
Change in deferred tax assets	<u>-</u>	<u>9</u>
Total income tax expense	<u>\$ 62</u>	<u>\$ -</u>
 Effective tax rate	 36.7%	 35.0%

Differences between the tax basis of assets and liabilities and their reported amounts in the financial statements that will result in taxable or deductible amounts in future years are called temporary differences. The tax effects of temporary differences that give rise to the deferred tax assets and deferred tax liabilities are presented in the following table:

	<u>2007</u>	<u>2006</u>
Deferred tax asset		
Legal reserve	\$ 10	\$ -
Net realized losses on securities	<u>-</u>	<u>4</u>
Gross deferred tax asset	10	4
Less: valuation allowance	<u>-</u>	<u>-</u>
Net deferred tax asset	\$ 10	\$ 4
 Deferred tax liability		
Net realized gains of securities	<u>3</u>	<u>-</u>
Net deferred tax asset	<u>\$ 7</u>	<u>\$ 4</u>

A valuation allowance is established for deferred tax assets that the Company does not believe a future tax benefit will be realized using a more likely than not standard. The Company did not record a valuation allowance in 2006 or 2007 as management believes the Company will more likely than not realize the benefit of its deferred tax asset.

**Sunset Financial Services, Inc.**  
**Notes to Financial Statements – Continued**  
(amounts in thousands)

**4. NET CAPITAL REQUIREMENTS**

The Company is subject to the Securities and Exchange Commission (SEC) Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. At December 31, 2007, the Company had net capital of \$1,754, which was \$1,644 in excess of its required net capital of \$110. The Company's ratio of aggregate indebtedness to net capital was 0.94 to 1 (2006 – 0.62 to 1).

**5. RELATED PARTY TRANSACTIONS**

Pursuant to terms of an agreement, Kansas City Life furnished certain fixed assets and administrative services to the Company. The administrative fees for providing such items, as determined by Kansas City Life, amounted to 2007 - \$2,304 (2006 - \$2,224). At December 31, 2007, the Company had an accounts payable due to affiliates of \$37 (2006 - \$127). The Company receives various services as part of this relationship and the cost of these services are determined based upon internal cost studies, which may be different than if the services were provided by an unrelated third party.

The Company executed brokerage transactions for Kansas City Life and Sunset Life and recorded brokerage commissions related to these transactions, as identified in the Statements of Operations. Net affiliated revenues amounted to 2007 - \$19 (2006 - \$27). Accounts receivable at December 31, 2007 included receivables from affiliates of \$7.

**SUNSET FINANCIAL SERVICES, INC.**  
**COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1**  
**OF THE SECURITIES AND EXCHANGE COMMISSION**  
**SCHEDULE I**  
(amounts in thousands)

	December 31 2007
<b>NET CAPITAL</b>	
Total stockholder's equity	\$ 1,826
Non-allowable assets	14
Haircuts on securities (computed pursuant to Rule 15c3-1(c)(2)(vi)(D))	58
Net capital	1,754
Minimum net capital requirement	110
Excess net capital	\$ 1,644
<b>AGGREGATE INDEBTEDNESS</b>	
Commissions payable	1,482
Due to affiliated entities	37
Accounts payable and accrued liabilities	72
Current tax liability	62
Aggregate indebtedness	\$ 1,653
Ratio of aggregate indebtedness to net capital	0.94 to 1

**Statement regarding Rule 17a-5(d)(4)**

There were no material differences between the computation of net capital under Rule 15c3-1 included in this audited report and the computation included in the Company's corresponding unaudited Form X-17A-5 Part IIA filing as of December 31, 2007 as amended on February 25, 2008.

**SUNSET FINANCIAL SERVICES, INC.**  
**EXEMPTIVE PROVISION UNDER RULE 15c3-3**  
**SCHEDULE II and III**

The Company is exempt from Rule 15c3-3 of the Securities and Exchange Commission under paragraph (k)(1) of that Rule. The Company clears transactions through National Financial Services.



KPMG LLP  
Suite 1000  
1000 Walnut Street  
Kansas City, MO 64106-2162

## **Independent Auditors' Report on Internal Control Required by SEC Rule 17a-5**

The Board of Directors  
Sunset Financial Services, Inc.:

In planning and performing our audit of the financial statements of Sunset Financial Services, Inc. (the Company), a wholly owned subsidiary of Kansas City Life Insurance Company, as of and for the years ended December 31, 2007 and 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including consideration of control activities for safeguarding securities. This study included tests of such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons and recordation of differences required by Rule 17a-13
2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with U.S. generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control and the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is

subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures, as described in the second paragraph of this report, were adequate at December 31, 2007, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Kansas City, Missouri  
February 28, 2008



KPMG LLP  
Suite 1000  
1000 Walnut Street  
Kansas City, MO 64106-2162

## Independent Auditor's Report

The Board of Directors  
Sunset Financial Services, Inc.:

We have audited the accompanying statements of financial condition of Sunset Financial Services, Inc. (the Company), a wholly owned subsidiary of Kansas City Life Insurance Company, as of December 31, 2007 and 2006, and the related statements of operations, stockholders' equity, and cash flows for the years then ended that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sunset Financial Services, Inc. as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I, II, and III is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

Kansas City, Missouri  
February 28, 2008

END